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CRESCENT AFFORDABLE HOUSING CORPORATION
(A Component Unit of the Housing Authority of New Orleans)
SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS
For the period from December 11, 2003 (inception) through December 31, 2005
with
Report of Independent Auditors

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 9/24/08



**NOVOGRADAC
& COMPANY** LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To the Member of
Crescent Affordable Housing Corporation :

We have audited the accompanying special-purpose consolidated statement of net assets of Crescent Affordable Housing Corporation as of December 31, 2005, and the related special-purpose consolidated statements of activities and cash flows for the period from December 11, 2003 (inception) through December 31, 2005. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose consolidated financial statements were prepared for the purpose of internal analysis and reporting by the management of the Housing Authority of New Orleans, Louisiana, as discussed in Note 2, and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the special-purpose consolidated financial statements referred to above present fairly, in all material respects, the December 31, 2005 financial position of Crescent Affordable Housing Corporation, and the results of its activities and cash flows for the period from December 11, 2003 (inception) through December 31, 2005 on the basis of accounting described in Note 2.

This report is intended solely for the information and use of the board of directors and management of Crescent Affordable Housing Corporation, and is not intended to be and should not be used by anyone other than these specified parties.

Novogradac & Company LLP

December 6, 2007

CRESCENT AFFORDABLE HOUSING CORPORATION
(A Component Unit of the Housing Authority of New Orleans)
SPECIAL-PURPOSE CONSOLIDATED BALANCE SHEET
December 31, 2005

ASSETS

Cash and cash equivalents	\$ 1,028,210
Restricted cash	306,116
Due from related parties	<u>443,922</u>
Total assets	<u><u>1,778,248</u></u>

LIABILITIES AND MEMBER'S CAPITAL

Liabilities	
Investment obligations	1,058
Deferred development fee revenue	648,000
Due to related parties	<u>1,043,243</u>
Total liabilities	<u>1,692,301</u>
Member's capital	<u>85,947</u>
Total liabilities and member's capital	<u><u>\$ 1,778,248</u></u>

see accompanying notes

CRESCENT AFFORDABLE HOUSING CORPORATION
(A Component Unit of the Housing Authority of New Orleans)
SPECIAL-PURPOSE CONSOLIDATED STATEMENT OF OPERATIONS
For the period from December 11, 2003 (inception) through December 31, 2005

REVENUE	
Management fee	\$ 52,950
OPERATING EXPENSES	
Loss from investments in companies	1,058
Legal and other professional fees	179,743
General and administrative	<u>19,453</u>
Total operating expenses	<u>200,254</u>
Operating loss	(147,304)
OTHER INCOME	
Donations	223,009
Interest income	<u>10,242</u>
Total other income	<u>233,251</u>
Net income	<u><u>\$ 85,947</u></u>

see accompanying notes

CRESCENT AFFORDABLE HOUSING CORPORATION
SPECIAL-PURPOSE CONSOLIDATED STATEMENT OF CHANGES IN MEMBER'S CAPITAL
For the period from December 11, 2003 (inception) through December 31, 2005

BALANCE, DECEMBER 11, 2003 (INCEPTION)	\$ -
Net income	<u>85,947</u>
BALANCE, DECEMBER 31, 2005	<u>\$ 85,947</u>

see accompanying notes

CRESCENT AFFORDABLE HOUSING CORPORATION
(A Component Unit of the Housing Authority of New Orleans)
SPECIAL-PURPOSE CONSOLIDATED STATEMENT OF CASH FLOWS
For the period from December 11, 2003 (inception) through December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 85,947
Adjustments to reconcile net income to net cash used in operating activities:	
Increase in restricted cash	(306,116)
Increase in due from related parties	(443,922)
Increase in investment obligations	1,058
Increase in deferred development fee revenue	648,000
Net cash used in operating activities	<u>(15,033)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in due to related parties	1,043,243
Net cash provided by financing activities	<u>1,043,243</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,028,210
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$ 1,028,210</u></u>

see accompanying notes

CRESCENT AFFORDABLE HOUSING CORPORATION
(A Component Unit of the Housing Authority of New Orleans)
NOTES TO CONSOLIDATED SPECIAL-PURPOSE FINANCIAL STATEMENTS
For the period from December 11, 2003 (inception) through December 31, 2005

1. General

Crescent Affordable Housing Corporation (CAHC, or the "Organization") is a Louisiana not-for-profit corporation created in December 2003 by the Housing Authority of New Orleans (the Authority) for the specific purpose of providing a financial entity to assist the Authority in acquiring, financing, redeveloping, rehabilitating, and constructing affordable housing. CAHC is the sole member of Lune d'Or Enterprises LLC (Lune d' Or), a for-profit entity created by the Authority that serves as the managing member of several for-profit Limited Liability Corporations (LLC's) that own and operate affordable housing projects developed on properties owned by the Authority.

CAHC is a component unit of the Authority under the requirements of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. CAHC is presented as a blended component unit of the Authority as there is a financial benefit/burden relationship with the Authority. The Authority has the ability to influence the operations of CAHC as its board of directors is appointed by the Authority and any changes to CAHC's by-laws must be approved by the Authority. CAHC also provides company management services through Lune d'Or, exclusively for the benefit of the Authority.

2. Summary of significant accounting policies and nature of operations

Basis of presentation

The Organization prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America, except where modified as discussed below.

The management of the Housing Authority of New Orleans, Louisiana requires a basis of presentation for the special purpose of the internal analysis and reporting that reflects the equity method of accounting for its investments; therefore, the financial statements of Lune d'Or, which are reflected in the Organization's consolidated financial statements, do not include the consolidation of the investment in companies.

The management of the Housing Authority of New Orleans, Louisiana also requires a presentation for the special purpose of the internal analysis and reporting in which the Organization does not record development fee revenue or receivables, or co-developer fee expense or payables, related to twelve of the fifteen companies for which they are the developer, due to renegotiations of developer service contracts with outside parties.

Principals of consolidation

These consolidated financial statements include the accounts for CAHC and the single-member limited liability company, Lune d'Or.

CRESCENT AFFORDABLE HOUSING CORPORATION
(A Component Unit of the Housing Authority of New Orleans)
NOTES TO CONSOLIDATED SPECIAL-PURPOSE FINANCIAL STATEMENTS
For the period from December 11, 2003 (inception) through December 31, 2005

2. Summary of significant accounting policies and nature of operations (continued)

Concentration of credit risk

CAHC places its temporary cash investments with high credit quality financial institutions. At times, the account balances may exceed the institutions' federally insured limits. CAHC has not experienced any losses in such accounts.

Income tax

CAHC is classified as a public charity under Internal Revenue Code Section 501(c)(3), not as a private foundation, and is not subject to income tax. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Economic concentrations

CAHC is the developer and, through Lune d'Or, the managing member for multiple projects located in New Orleans, Louisiana. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

Operating revenues and expenses

CAHC distinguishes operating revenues and expenses from non-operating items. CAHC's primary activities are developing, and through Lune d'Or, managing affordable housing projects.

Revenue recognition

Revenue attributable to management fees is recorded when earned and due from companies owning the projects, generally in accordance with the respective development and management agreements.

3. Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with maturities of three months or less at the date of acquisition. The account is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. As of December 31, 2005, the amount on deposit with the institution exceeded the amount insured by the FDIC by \$928,210. Restricted cash is not considered cash and cash equivalents.

CRESCENT AFFORDABLE HOUSING CORPORATION
(A Component Unit of the Housing Authority of New Orleans)
NOTES TO CONSOLIDATED SPECIAL-PURPOSE FINANCIAL STATEMENTS
For the period from December 11, 2003 (inception) through December 31, 2005

4. Restricted cash

A Revolving Line of Credit Loan Agreement between CAHC and Lune d' Or was executed on January 20, 2005, which provides a \$1,300,000 revolving line of credit to Lune d' Or. The line of credit was established to enable Lune d' Or to guarantee obligations as the managing member of Fischer I, LLC, Fischer III, LLC, and Guste I, LLC. As part of the agreement, CAHC established a restricted cash account to maintain an amount not less than \$1,300,000. As of December 31, 2005, the balance of the restricted cash account was \$306,116, and CAHC was not in compliance with the agreement. The account is insured by the Federal Deposit Insurance Corporation ("FDIC") in combination with the cash and cash equivalents amount, up to \$100,000. As of December 31, 2005, the amount on deposit with the institution exceeded the amount insured by the FDIC by \$306,116.

5. Related party transactions

Due from related parties

As of December 31, 2005, Fischer I, LLC, a component unit of the Authority, owed CAHC for miscellaneous costs associated with construction. The costs were paid by CAHC on behalf of Fischer I, LLC during the development phase of the project. As of December 31, 2005, the amount due from Fischer I, LLC was \$14,793.

As of December 31, 2005, Guste I, LLC, a component unit of the Authority, owed CAHC for miscellaneous costs associated with construction. The costs were paid by CAHC on behalf of Guste I, LLC during the development phase of the project. As of December 31, 2005, the amount due from Guste I, LLC was \$77,199.

As of December 31, 2005, Florida II-A, LLC, a component unit of the Authority, owed CAHC for miscellaneous costs associated with construction. The costs were paid by CAHC on behalf of Florida II-A, LLC during the development phase of the project. As of December 31, 2005, the amount due from Florida II-A, LLC was \$129,390.

As of December 31, 2005, Fischer III, LLC, a component unit of the Authority, owed CAHC for miscellaneous costs associated with construction. The costs were paid by CAHC on behalf of Fischer III, LLC during the development phase of the project. As of December 31, 2005, the amount due from Fischer III, LLC was \$149,590.

As of December 31, 2005, Mazant Royal, LLC, a component unit of the Authority, owed CAHC for miscellaneous costs. The costs were paid by CAHC on behalf of Mazant Royal, LLC during the development phase of the project. As of December 31, 2005, the amount due from Mazant Royal, LLC was \$20,000.

CRESCENT AFFORDABLE HOUSING CORPORATION
(A Component Unit of the Housing Authority of New Orleans)
NOTES TO CONSOLIDATED SPECIAL-PURPOSE FINANCIAL STATEMENTS
For the period from December 11, 2003 (inception) through December 31, 2005

5. Related party transactions (continued)

Investment Obligations

CAHC recognizes management services revenue earned by Lune d'Or. Management services revenue earned during the period December 11, 2003 (inception) through December 31, 2005 were as follows:

<u>Company</u>	
Guste I, LLC	\$ 12,300
Florida II-A, LLC	25,200
Fischer III, LLC	<u>15,450</u>
Total	<u>\$ 52,950</u>

As of December 31, 2005, management services revenue receivable were \$52,950 and is included in "Due from related parties" on the accompanying special-purpose consolidated balance sheet.

Development services revenue

Pursuant to the development agreements between CAHC and Fischer I, LLC, Guste I, LLC, and Fischer III, LLC, CAHC earns a fee for development services rendered. During the period December 11, 2003 (inception) through December 31, 2005, no development services fees were earned. CAHC was paid the following amounts, in advance, for development services fees not yet earned:

<u>Company</u>	
Fischer I, LLC	\$ 48,000
Guste I, LLC	300,000
Fischer III, LLC	<u>300,000</u>
Total	<u>\$ 648,000</u>

This amount is included in "Deferred development program fees revenue" on the accompanying special-purpose consolidated balance sheet.

CRESCENT AFFORDABLE HOUSING CORPORATION
(A Component Unit of the Housing Authority of New Orleans)
NOTES TO CONSOLIDATED SPECIAL-PURPOSE FINANCIAL STATEMENTS
For the period from December 11, 2003 (inception) through December 31, 2005

5. Related party transactions (continued)

Investment in Companies

Lune d' Or serves as the managing member for Fischer I, LLC, Guste I, LLC, Florida II-A, LLC, and Fischer III, LLC. The equity method is used to account for the investments in each of the companies. As of December 31, 2005, the carrying amount of the investment in companies, which is included in "Due to related parties" on the accompanying special-purpose consolidated balance sheet, was as follows:

<u>Company</u>	
Fischer I, LLC	\$ (10)
Guste I, LLC	(10)
Florida II-A, LLC	(1028)
Fischer III, LLC	<u>(10)</u>
Total investment obligations in companies	<u>\$ (1,058)</u>

Co-development fee

Pursuant to the Co-Development Agreement between CAHC and the Authority, the Authority earns a co-development fee for development services rendered for Fischer I, LLC, Guste I, LLC, and Fischer III, LLC in the amount of twenty percent of the total development services fee earned by CAHC. The total co-development fee is due to the Authority upon CAHC's receipt of the final development services fee payments from Fischer I, LLC, Guste I, LLC, and Fischer III, LLC, pursuant to the development agreements. As of December 31, 2005, no co-development fee was incurred or payable to the Authority.

Due to authority

As of December 31, 2005, \$1,043,243 is owed to HANO for various operating advances paid by HANO on CAHC's behalf.